

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

RECEIVED-FPSC

11 JUN -8 AM 8:32

-M-E-M-O-R-A-N-D-U-M-

COMMISSION
CLERK

DATE: June 7, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110004-GU
Company Name: Peoples Gas System
Company Code: GU608
Audit Purpose: Gas Conservation Cost Recovery
Audit Control No: 11-005-2-6

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/ir

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

03952 JUN-8 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

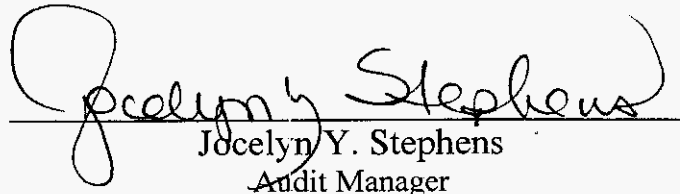
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Peoples Gas System
Gas Conservation Cost Recovery

Twelve Months Ended December 31, 2010

Docket No. 110004-GU
Audit Control No. 11-005-2-6
May 27, 2011


Jocelyn Y. Stephens
Audit Manager


Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

03952 JUN-8 =

FPSC-COMMISSION CLERK

Table of Contents

Purpose.....	1
Objectives and Procedures	2
Audit Findings	
1: Advertising Expenses.....	4
2: Home Builder Incentive Payments	6
Exhibits	
1: Calculation of True Up and Interest.....	7
2: Conservation Program Costs per Program.....	8

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Peoples Gas System (PGS or the Company) and to several of its related schedules in support of its filing for the Energy (Gas) Conservation Cost Recovery (ECCR) True-Up in Docket No. 110004-GU.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Revenue

Operating Revenue

Objectives: Our objectives were to verify that the Company has applied the approved ECCR adjustment factors to the therm sales during the period and to determine if revenues, as filed, agreed with the amounts that were recorded on the books of the Company and these amounts were accurately computed and properly recorded.

Procedures: We obtained monthly schedules of firm and interruptible therms sold, by customer class, for January through December 2010. We verified that all interruptible service therms, including Arizona Chemicals, were removed prior to calculating ECCR revenues. We applied the Commission authorized rates by customer class to allowable therms by customer class and adjusted our calculation for the revenue tax factor. We reconciled our revenue calculation to the ECCR revenues recorded in the PGS ECCR filing and the general ledger. We performed a customer billing sample test to verify that customers in all rate classes were billed the Commission approved ECCR rate.

Expense

Operation and Maintenance Expense

Objectives: Our objectives were to verify that expenses, as filed, pertain to conservation activities and support the Commission approved ECCR programs: advertising expenses directly related to an approved conservation program as stated in Commission Rule 25-17.015, Florida Administrative Code (F.A.C.); incentives listed in builder agreements match those of the Company's conservation programs; and, rebates given to customers agree to amounts prescribed by Commission Orders.

Procedures: Using the general ledger, we prepared a schedule of conservation expenses by type and program. We selected advertising, payroll, benefits, customer rebates, and home builder incentive expenses for analysis. We verified that the Company's filing reconciled to the amounts recorded in the general ledger.

In our analysis of rebates, we examined the payment amounts and the existence and adequacy of supporting documentation recorded in the Natural Gas Water Heater Load Retention and the Residential Electric Replacement programs. We also verified whether the rebates made complied with the Commission authorized rates in effect during the appropriate periods¹.

In our analysis of advertising expenses we examined randomly selected vouchers and invoices to determine if payments were made based upon adequate supporting documentation. We listened to radio ads and we viewed television and web ads to determine that the ads met the

¹ FPSC Order No. PSC-09-0733-FOF-GU, issued 11/4/2009, Docket No. 090004-GU Re: Natural gas conservation cost recovery.

requirements set forth under Commission Rule 25-17.015(5), F.A.C. We also verified whether advertising expenses were incurred in the current test period and when applicable, allocations were properly computed and accurately recorded. The result of our analysis is included in Finding 1.

In our analysis of payroll expenses, we examined significant fluctuations in payroll costs between months for selected employees whose time is charged to ECCR. We also examined the Company's methodology for assigning payroll benefit costs to ECCR clause. We then recalculated payroll benefits for a selected month to determine if the methodology employed by the Company matches the calculation reported in the general ledger.

In our analysis of builder agreements, we prepared a schedule of those agreements that were entered into during 2010. We included the builder's name, county of construction, effective date of agreement, duration of agreement, required number of appliances, penalty amount for failure to meet required appliance installation, and incentive amount. The result of our analysis is included in Finding 2.

Audit Findings

Finding 1: Advertising Expenses

Audit Analysis: In our analysis of ECCR advertising expenses, we determined that the Company recorded advertising costs of \$1,039,486. The purpose of these advertising costs was to promote the use of natural gas and inform the public of rebates available for the replacement of electric appliances (replacement) or the retention of natural gas appliances (retention). We examined documentation supporting advertising costs totaling \$930,365 or 89.5% of the total advertising expense incurred.

We noted that the Company incurred \$9,300 for advertising its Residential Replacement and Retention programs, and Residential – New Construction program and Commercial Program in Florida Plumbing Perspective magazine.

The Company incurred \$100,000 for advertising its replacement program on talk show spots and FB (football) radio broadcasts on the Seminole ISP Sports Network. The Company also incurred \$4,000 for hospitality and merchandising which were charged to accounts other than ECCR. Additionally, the Company incurred \$6,900 for advertising its replacement program during the Gator Bowl Broadcast. The total costs incurred complied with contract terms.

The Company incurred \$101,115 for an advertising agreement with IMG Communications Inc. for ECCR advertisement on television/radio broadcasts, a web banner on the Gatorzone.com website, and spots on a coaches' talk shows. The Company also incurred \$1,760 for hospitality and merchandising which was charged to accounts other than ECCR. Additionally, the Company incurred \$15,100 to broadcast its replacement programs during the SEC Championship Game, the Sugar Bowl and a talk show after the SEC game. The time period for the web banner on the Gatorzone.com website was for the four months during football season. A current review of the Gatorzone website did not reveal any advertisement for the Company.

The Company incurred \$24,890 for advertising its replacement program during a televised coach's show and FB radio broadcastings for the UCF Knights. The Company also incurred \$920 in merchandising which was charged to accounts other than ECCR.

The Company incurred \$56,500 for sponsorship advertising with the Tampa Bay Arena, LP (Bolts Ice Hockey Team). With this sponsorship, the Company received 59 radio and 33 television 30-second advertisement spots of its conservation replacement program for one year as well as web banner and hyperlink website exposure on tampabaylightning.com for an unspecified period. Additionally, the Company will have its advertising included in all game day programs and in the official yearbook.

The Company incurred \$10,500 for sponsorship advertising with the Tampa Bay Storm. With this sponsorship the Company will receive billboard exposure, 15 30-second television spots, 80 30-second radio spots, and a website banner during the regular season, full page ad in game book and insertion of an ad the replacement conservation program in a media guide.

Along with Florida City Gas, the Company entered into a multi-year contract with Fins Integrated Media Group for advertising in 2010 to promote energy efficiency and consumer

education as a part of their energy efficiency programs. In 2010, the Company incurred advertising expense of \$63,632. The bilingual conservation advertising will be included in daily radio spots with streaming internet radio, pregame and game time radio broadcasts to include billboard mentions, and web banner coverage for five months. The Company will interact with game goers to provide educational materials regarding the benefits of using natural gas and the gas conservation programs and rebates that are available.

The Company incurred \$150,890 for membership dues to the Florida Natural Gas Association. The Company allocated this expense among ECCR - \$42,267, Lobbying - \$22,634, and Dues - \$82,990. This payment qualifies the Company to be listed in its 2010-2011 membership directory. Included in the membership directory is a page advertising GetGasFl.com (Your Link to Energy Conservation). GetGasFl.com is a web information site promoting the economical and environmental aspects of gas usage for both manufacturers and gas utilities with consumer tools and resources. It is supported by Florida Natural Gas Association (FNGA), Tampa Electric Company (TECO), Florida City Gas, Florida Utilities and Central Florida Gas.

The remaining conservation advertising costs that we examined were payments to MTN Advertising Inc. for billings by GetGasFl.com network/cable and radio broadcasting, banner ads, program and ad development, television and radio production, and on-line videos. Total costs examined totaled \$674,678.

Using the Program Progress Reports prepared by the Company, we performed an analysis of participation in the residential appliance replacement program and the residential appliance retention program. We noted that for 2010, participants in the residential appliance retention program increased by 2,840 which is an increase of 12.57% over new participants in 2009. The number of new participants in the residential appliance replacement program in 2010 increased by 473. This represents 47 fewer new participants in 2010 than in 2009.

Effect on the General Ledger: For informational purposes only.

Effect on the Filing: For informational purposes only.

Finding 2: Home Builder Incentive Payments

Audit Analysis: While reviewing home builder agreements, we noted that the Company requires some builders to install piping only for pilotless gas ranges and for gas dryers to qualify for an incentive payment of either \$100 or \$150. Other home builders are required to install the actual appliance for the same \$100 or \$150 incentive payment. The Company verified that it does indeed pay builders an incentive payment for the installation of piping only.

The Company references PSC Order No. 23462², as the authority given to pay only for the piping, "...The incentives offered to builders under this program are designed to assist in defraying the added cost of gas piping and venting. Participation in this program is open to any builder of homes who installs energy efficient whole house gas heating and water heating and provides piping and venting connections for a range and clothes dryer." "...Under the proposed program, the allowance....for heating and water heating, range connection....dryer connection total"

In Commission Order 10-0551-PAA-EG³, it is stated that for the Residential New Construction Program, "Allowances are paid upon service activation for the installation of the applicable appliances. The program allowances are designed to assist in defraying the cost of interior gas piping, venting, appliance installation and other costs associated with residential gas service."

We were not been able to determine total incentive payments that have been paid to builders for the installation of piping only.

Also, we determined that the Company does not always assess the failure to complete penalty to home builders who do not meet the minimum number of required appliance installations. We were not been able to determine the total dollars impact for this practice

Effect on the General Ledger: For informational purposes only

Effect on the Filing: For informational purposes only.

² PSC Order No. 23462, issued 9/11/90, Docket 900089-EG, Re: Request for approval of Energy Conservation Plan by Peoples Gas System, Inc, Docket 900089-EG, Issued 9/11/90, page 19.

³ FPSC Order No. PSC-10-0551-PAA-EG, issued 9/2/2010, Docket No. 100186-EG Re: Petition for approval of natural gas residential energy conservation programs, by Associated Gas Distributors of Florida.

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2010 THROUGH DECEMBER 2010

CONSERVATION REVENUES	JAN 2010	FEB 2010	MAR 2010	APR 2010	MAY 2010	JUN 2010	JUL 2010	AUG 2010	SEP 2010	OCT 2010	NOV 2010	DEC 2010	TOTAL
1. RCS AUDIT FEES	-	-	-	-	-	-	-	-	-	-	-	-	-
2. OTHER PROGRAM REVS	-	-	-	-	-	-	-	-	-	-	-	-	-
3. CONSERV. ADJ REVS	(861,466)	(803,686)	(823,517)	(627,798)	(433,203)	(347,514)	(337,833)	(327,592)	(325,048)	(344,366)	(387,084)	(602,252)	(6,221,359)
4. TOTAL REVENUES	(861,466)	(803,686)	(823,517)	(627,798)	(433,203)	(347,514)	(337,833)	(327,592)	(325,048)	(344,366)	(387,084)	(602,252)	(6,221,359)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(70,951)	(851,408)
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(932,416)	(874,637)	(894,468)	(698,749)	(504,154)	(418,464)	(408,783)	(398,543)	(395,998)	(415,317)	(458,035)	(673,203)	(7,072,767)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	408,016	340,633	397,522	492,485	464,603	400,671	432,561	552,285	617,121	387,542	594,748	632,814	5,721,003
8. TRUE-UP THIS PERIOD	(524,400)	(534,003)	(496,946)	(206,264)	(39,551)	(17,793)	23,778	153,743	221,123	(27,775)	136,713	(40,389)	(1,351,764)
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	(180)	(262)	(347)	(415)	(550)	(653)	(577)	(476)	(394)	(337)	(310)	(286)	(4,787)
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(851,408)	(1,305,037)	(1,768,352)	(2,194,694)	(2,330,422)	(2,299,572)	(2,247,068)	(2,152,917)	(1,928,700)	(1,637,020)	(1,594,181)	(1,386,827)	
11 PRIOR TRUE-UP COLLECTED/(REFUNDED)	70,951	70,951	70,951	70,951	70,951	70,951	70,951	70,951	70,951	70,951	70,951	70,951	
12 TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	(1,305,037)	(1,768,352)	(2,194,694)	(2,330,422)	(2,299,572)	(2,247,068)	(2,152,917)	(1,928,700)	(1,637,020)	(1,594,181)	(1,386,827)	(1,356,551)	(1,356,551)

Exhibit 1: Calculation of True Up and Interest

Exhibits

Exhibit 2: Conservation Program Costs per Program

ACTUAL CONSERVATION PROGRAM COSTS PER PROGRAM
JANUARY 2010 THROUGH DECEMBER 2010

PROGRAM NAME	PAYROLL & BENEFITS	MATERIALS & SUPPLIES	ADVERTISING	INCENTIVE	OUTSIDE SERVICES	VEHICLE	OTHER	TOTAL
PROGRAM 1: RESIDENTIAL HOME BUILDER	0	0	0	1,050,000	0	0	0	1,050,000
PROGRAM 2: OIL HEAT REPLACEMENT	0	0	0	1,320	0	0	0	1,320
PROGRAM 3: RESIDENTIAL APPLIANCE RETENTION	0	0	0	2,555,930	0	0	0	2,555,930
PROGRAM 4: COMMERCIAL ELECTRIC REPLACEMENT	0	0	0	80,315	0	0	0	80,315
PROGRAM 5: RESIDENTIAL ELECTRIC REPLACEMENT	0	0	0	638,373	0	0	0	638,373
PROGRAM 6: COMMON COSTS	328,209	1,303	1,039,486	0	26,067	0	0	1,395,065
PROGRAM 7: GAS SPACE CONDITIONING	0	0	0	0	0	0	0	0
PROGRAM 8: SMALL PACKAGE COGEN	0	0	0	0	0	0	0	0
PROGRAM 9: MONITORING & RESEARCH	0	0	0	0	0	0	0	0
PROGRAM 10: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 11: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 12: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 13: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 14: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 15: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 16: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 17: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 18: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 19: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
PROGRAM 20: (TYPE NAME HERE)	0	0	0	0	0	0	0	0
TOTAL	328,209	1,303	1,039,486	4,325,938	26,067	0	0	5,721,003